

Testimony of William K. Drummond
Executive Director of
The Mid-West Electric Consumers Association

Mr. Chairman and members of the subcommittee, my name is William K. Drummond and I am the Executive Director of the Mid-West Electric Consumers Association (Mid-West). Mid-West represents a membership of some 300 not-for-profit utilities that purchase power from federal hydroelectric facilities on the Missouri River and its tributaries under the Pick-Sloan Missouri Basin Program. My testimony today addresses funding for the Western Area Power Administration (WAPA), a part of the Department of Energy, and recommends that WAPA's net-zero request (discretionary offsetting collections) be reduced in the FY2018 budget by \$35 million to \$179 million to address the Parker-Davis and Intertie double budgeting. Mid-West supports WAPA's other appropriations.

These federal hydroelectric projects are operated by the U.S. Army Corps of Engineers (the Corps) and the U.S. Bureau of Reclamation (Reclamation), and the power is marketed by WAPA to Mid-West's members through long-term firm contracts, some of which extend beyond 2050. This cost-based, renewable, and non-carbon emitting power has been a part of their power supply since the 1940s, even before the Pick-Sloan program was started. It is an extremely important part of their power supply

The utility members of Mid-West serve some 8 million people in the states of Colorado, Iowa, Kansas, Minnesota, Montana, Nebraska, North Dakota, South Dakota, and Wyoming. Mid-West members account for 50 percent of WAPA's gross revenues.

Additionally, through the Western States Power Corporation, Mid-West members have provided over \$650 million in funds for the hydroelectric projects and plan to provide over

\$1 billion in funds over the next 20 years to help maintain the Corps' mainstem Missouri River projects. Thus, Mid-West's members not only have made long-term commitments to purchase the output of the Pick-Sloan projects, they have also made long-term commitments to provide adequate funding to sustain the projects.

My testimony has three elements: Support for WAPA and its mission; Support for a \$35 million reduction in WAPA's Net Zero Appropriation request; and WAPA transparency.

Support for WAPA: The Pick-Sloan Missouri Basin Program, which was part of the Flood Control Act of 1944, set the plan for the development of the Missouri River. The Pick-Sloan Program now has an installed capacity of 2981 megawatts and associated energy that is marketed to Mid-West preference utility members across the Upper Great Plains.

In exchange for the long-term commitments to purchase WAPA power, Mid-West members pay rates that recover the capital costs of the federal investment (plus interest) in hydropower generation and transmission facilities, hydropower's share of joint costs (dams, spillways, etc.) and other project purposes' costs assigned by Congress to hydropower beneficiaries. WAPA's rates also cover the annual operations and maintenance costs of hydropower facilities. WAPA's and the other three federal power marketing administrations' (PMA's) cost-based rates are NOT subsidized by the U.S. Treasury.

Section 5 of the Flood Control Act of 1944 requires that the PMAs market federal power "in such a manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles . . ." This provision means that PMAs sell power at cost-based rates. Although past Administrations and various members of Congress have recommended raising the PMA rates to a market-based rather than the present cost-based system, Congress has consistently reaffirmed the use of cost-based rates for the PMAs and has

prohibited the Executive Branch from undertaking studies of any rates other than cost-based. Raising PMA rates to market level will take millions of dollars out of fragile rural economies. There have also been proposals to privatize the PMAs by selling them to the highest bidder. These ill-advised proposals would have a devastating impact on the rural economy of the Upper Great Plains.

Mid-West urges you to oppose any proposed sale of the PMAs or imposition of market-based rates on the sale of federal hydropower.

Support for a \$35 million Reduction in WAPA's Net Zero Appropriation: The WAPA budget is funded from multiple sources, including, for example, customer advances, appropriations, net-zero appropriations, direct access to receipts, revolving funds, and trust funds (work done on behalf of others). One of these sources, the net-zero appropriation, (known officially as "discretionary offsetting collections"), is funded by Congress with the caveat that all funds from this source be reimbursed within the year they are spent, essentially netting the appropriation to "zero." The net-zero appropriations are an important source of funding for the agency and comprise 18%-20% of WAPA's gross budget. In FY2016, the approved net-zero amount was \$214 million.

The net-zero appropriations system adopted by this Subcommittee and Congress works well. It helps millions of consumers in our region and is not a burden to the U.S. Treasury. We strongly support its continuation, but recommend an adjustment for 2018 to recognize a budgeting inconsistency.

The net-zero portion of WAPA's budget is developed by a careful analysis of their annual expenses, some components of which include expenses for the Parker-Davis and the Pacific

Northwest-Southwest Intertie Projects in WAPA's Desert Southwest Region (DSW). Parker-Davis and the Intertie are estimated to be approximately \$35 million of the \$214 million total.

Funding for Parker-Davis and Intertie expenses are both provided within the same year to WAPA directly from their power customers due to contractual arrangements and through net-zero implementation, resulting in a double-funding condition. WAPA carries the surplus funding until expended.

The overfunding continues to increase the buildup of unobligated balances beyond WAPA's strategic planning needs, which have been developed jointly with their customers. If the additional funds are spent beyond planned levels, it results in upward pressure on customer rates. Further, while the additional funding accrues from the DSW budgeting practices, it can affect other projects throughout WAPA, depending on where WAPA spends the funds. They are not limited to the Parker-Davis or Intertie Projects in the net-zero budget.

Mid-West recommends that WAPA's net-zero request (discretionary offsetting collections) be reduced to address the Parker-Davis and Intertie double budgeting in the FY2018 budget by \$35 million and by equivalent amounts in future fiscal years until WAPA corrects the situation internally through appropriate budget formulation.

WAPA Transparency: Mid-West has a good working relationship with WAPA and its sister federal agencies, the U.S. Army Corps of Engineers (Corps) and Bureau of Reclamation (Reclamation) regarding the flow of current and projected financial information. The basis for this is a Memorandum of Understanding (MOU) signed in 2004 between WAPA, the Corps, Reclamation and customers represented by Mid-West, the Western States Power Corporation, and the Loveland Area Customer Association. The purposes of the MOU are: to provide a forum to promote active participation, communication and coordination to ensure that Federal

generation, transmission, and other services are provided reliably at the lowest rates consistent with sound business principles; to develop a common financial reporting format; to provide early opportunities to exchange and discuss relevant work program information, and to facilitate a process that provides non-federal funding of Federal agencies' programs. Working collaboratively under this MOU, Mid-West has been able to review agency costs and direction, and to provide comments on those issues.

More recently, Mid-West and other WAPA customer groups working with WAPA have established a new process to delve more deeply into WAPA headquarters' costs on a schedule that allows for meaningful customer input. This process was established outside of the MOU at the customers' request working collaboratively with WAPA.

While Mid-West members still have healthy disagreements with some of WAPA's (and the Corps' and Reclamation's) spending proposals, we have been able to work together to obtain the data we need to provide informed comments. We respect the efforts of the employees and the leadership of these agencies in managing the federal assets under complicated circumstances and in the face of competing multipurpose and multi-State demands.

Summary: In conclusion, Mid-West's members strongly support WAPA and will oppose any effort to sell it (or the other PMAs) or to charge market-based rates. Mid-West's members support a \$35 million reduction in WAPA's net zero appropriation request for 2018 to address the Parker-Davis and Intertie double budgeting. Finally, Mid-West's members appreciate their working relationship with WAPA, the Corps and Reclamation. We work collaboratively to exchange data and ideas for the benefit of the people of the Upper Great Plains.

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